Reputational Risk Management: A Framework for Safeguarding Your Organization's Primary Intangible Asset

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Mr. Resnick has been a frequent speaker at industry conferences and has published articles concerning reputation. Most recently, Mr. Resnick has published articles discussing the reputation structure of the pharmaceutical industry in Pharmaceutical Executive, *the banking industry in* US Banker, *the electric power industry in* Platt's Energy Business and Technology, *and the department store and discount retailing industry in* Chain Store Age. *He was recently featured in a program by* CNBC India *on the topic of the impact of outsourcing. The current focus of his writing and speaking engagements is the inclusion of reputational risk assessment within the context of enterprise-wide risk management. He can be reached at jeff.resnick@opinionresearch.com.*

Introduction

Corporate leadership teams are the guardians of an organization's stability and financial well-being. The growth of profits and protection of assets are always prominent concerns. Yet, while numerous factors posing a potential risk to a company's equilibrium are routinely evaluated and addressed accordingly, one critical threat is too often overlooked: the company's reputation. Unless the key elements of reputational risk are identified, prioritized and monitored, an enterprise is not fully protected against the impact of potential negative events and issues. Reputational distress can be the result.[1]

This paper provides a framework for reputational risk management and outlines the major steps in assessing risk. The eight phases of conducting a *reputation audit* are examined in depth, as is the rationale for incorporating a proactive risk-management process.

What is Enterprise Risk Management?

Enterprise risk management is defined as "a process, effected by an entity's Board of Directors, management and other personnel, applied in a strategy setting and across the enterprise, designed to identify potential events that may affect the entity and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives."[2]

Applying principles from the internal audit community to the management of reputational risk provides executive management with a framework that can be implemented within the context of more traditional internal audit procedures, thus adding this important element to the methods designed to protect the enterprise from unnecessary and identifiable risk.

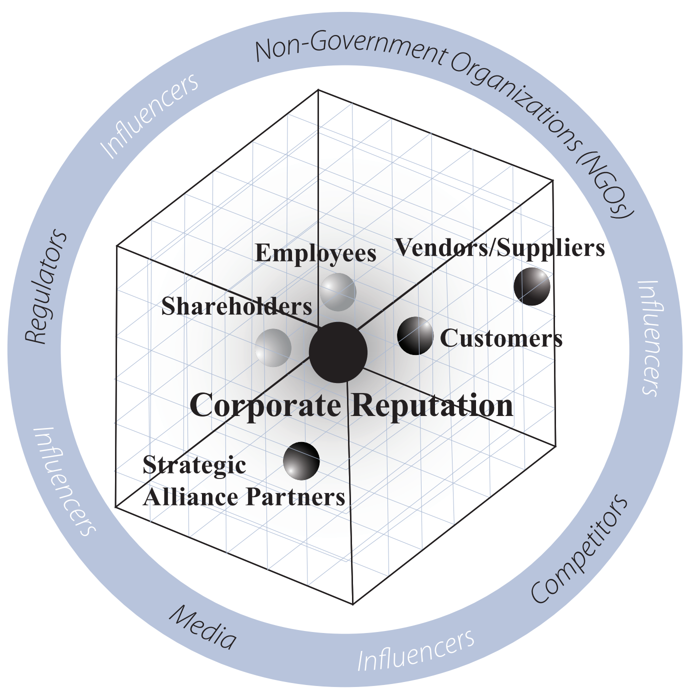
How is the Enterprise Risk Management Integrated Framework Useful?

The Enterprise Risk Management Integrated Framework, as developed by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission,[3] represents a set of principles and concepts, a common language, and a time-tested way to identify, assess, and manage risk. Using the framework, companies can identify the event/issue categories which must be considered in the building of any robust risk-management system, including reputation. However, unlike many other areas of risk, the forces impacting reputation come from a multiplicity of channels and stakeholders.

The Stakeholder Reputation Matrix illustrates some of the various groups that influence reputation. The potential for reputational distress from any one of these sources is inevitable during the life of a corporation.

Figure I: The Stakeholder Reputation Matrix shows the various stakeholder groups and other influencers that can impact a company's reputation.

Stakeholder Reputation Matrix



What is Reputation?

Reputation cannot be manufactured by an advertising agency or created by a PR firm. It is the result of ongoing interactions between a company and its key stakeholders, as well as communications among stakeholder groups.

Reputation is as much about *perception* and the perception of behaviors as it is about fact. It is about ethics, trust, relationships, confidence and integrity. It is built on the fundamental belief that management knows how to run its business and will win in the long term.

The principal tenet of reputation is that it cannot be manufactured by an advertising agency or created by a PR firm. Reputation is built as a result of ongoing interactions between a company and its key stakeholder groups, where the experience of the latter is consistent with the values the company claims to uphold, as well as with the promises it makes through advertising and other marketing communications. As stated by Professor Stephen A. Greyser of the Harvard Business School, "Actual corporate behavior far outweighs corporate communications about behavior — especially promised behavior."[4]

Can a company be strong in one area of reputation but not in others? Absolutely. The brief case study examined in this paper illustrates the reputational issues faced by Wal-Mart and Costco. Wal-Mart continues to navigate a rocky road toward securing a positive reputation among many stakeholder and public interest groups, while Costco continues to keep its employees, customers, and stockholders content.

The reason? *Reputation is built over time.* As noted earlier, it cannot be manufactured in a public relations or advertising department. Short-lived commitments to the customer, the community, and other significant stakeholders are transparent. Reputation is all about "walking the talk." If an executive team considers managing its company's reputation a public relations exercise, rather than a mandate for alignment of an organization's internal culture with its public corporate behavior and the customer experience, it will fall short of leveraging the economic value of the company's reputation.

One cannot ignore that reputational elements are also formed as a result of interactions *outside* a company's control — by discussion among various stakeholder groups, for example, or commentary by the media. Unfortunately, the media continues to provide us with stories of corporations that have squandered their reputation — perhaps unknowingly. The framework proposed will enable an executive management team to keep a firm fix on the pulse of its company's reputation.

A Case Study:
Wal-Mart's Achilles' Heel: Its Reputation

Wal-Mart Stores, Inc., may be the world's number one retailer, first on the Fortune 500, and the largest employer in the United States, but it has a reputational risk problem. In a 2002 survey of senior executives at thirteen companies in the industry, which was perhaps prescient of emerging issues, Wal-Mart ranked below its peer set on an important element of reputation: ethics.

The company is in the bottom half of being trustworthy, adhering to ethical business practices and being open and honest with the public. This low score may reflect competitors' negative response to the cost advantage that Wal-Mart achieves through its considerable leverage over vendors. In addition, many people have been concerned about Wal-Mart's aggressive store opening policy, which has negatively impacted "Main Streets" across the United States.

Rating Research LLC[1]

Wal-Mart ranked at the top in six of the eight reputational dimensions identified for this industry: market responsiveness, financial stability, strategic investment, differentiation, customer loyalty, and workforce diversity. By comparison, Costco Wholesale Corporation ranked at the top on the ethics factor. The lesson to be learned: Companies benefit by identifying potential reputational weaknesses *before* reputational events make headlines. The case against Wal-Mart and the case for Costco make that point.

The Case Against Wal-Mart

In the midst of racing to the top, Wal-Mart has taken blow after blow in the reputational area. It's the subject of a controversial documentary, "The High Cost of Low Price," the rallying cry for multiple activist groups and Web sites, and the underlying target of health-care legislation. In some communities, it is an unwanted citizen.

Wal-Mart has injected millions of dollars into a corporate image campaign aimed at defusing negative facts that were being widely publicized. The campaign actually backfired when community newspapers balked at providing free PR as Wal-Mart does little print advertising.[2] Although Wal-Mart has since launched newspaper advertising and PR campaigns, as well as significant corporate social responsibility efforts including disaster relief for hurricane victims, it has been unable to stem the criticism. Despite a strong fourth quarter in 2005, the company forecasts that earnings for the rest of the year will fall short of Wall Street's expectations. The retailer continues to receive negative commentary from Wall Street watchers such as *MSN Money's* Robert Walberg, who observes: "For the past two years, it seems like the home of everyday low prices has watched its share price go lower every day."[3]

Investing in PR is not enough. As one PR commentator advised, "What will be needed is sustained communications with all key stakeholder groups and a willingness to change business practices in order to find some common ground with groups that are key to the company's continued business health."[4]

The Case for Costco

In contrast to Wal-Mart, Costco doesn't have a PR department and doesn't spend a dime on advertising. Instead the company has found, in the words of CEO Jim Sinegal, "There's a real business advantage to treating employees well."

Costco, now the nation's fourth largest retailer, has the lowest employee turnover rate in the retailing industry. Its turnover is five times lower than Wal-Mart's.

According to the *New York Times*, "Not everyone is happy with Costco's business strategy. Some Wall Street analysts assert that Mr. Sinegal is overly generous not only to Costco's customers, but to its workers as well."[5] Employees, customers, and stockholders obviously don't agree. *For the past two years, Costco's stock has been rising; Wal-Mart's has been declining.*

"Imagine that you have 120,000 loyal ambassadors out there who are constantly saying good things about Costco. It has to be a significant advantage for you," Sinegal explained. As *ABC News*[6] reported recently, "What Sinegal has proven is that a company doesn't have to be ruthless. Being humane and ethical can also make you money."

[1]Rating Research LLC (RRC). 2002 Survey Report. RRC is a reputational rating agency, a joint venture between Opinion Research Corporation and the Ratrix Group. The principals are former senior executives of Moody's Investors Service. The agency measures the critical intangible assets that constitute corporate reputation. RRC's broadly disseminated *Reputation Ratings* and *Ethics Reputation Ratings* on leading companies — and the *Industry Reputation Studies* that support and explain those ratings — provide interested third parties, relevant stakeholders, and the public with greater insight into corporations' performance now and in the future.

[2]Mark Fitzgerald. "NNA Convention Offers Publishers Chance to Tee Off on Wal-Mart." September 30, 2005. Available at http://www.wakeupwalmart.com/news/20050930-eandp.html.

[3]Robert Walberg. "Now on Sale: Wal-Mart's Stock." February 21, 2006. Available at http://moneycentral.msn.com/content/P145209.asp

[4]John H. Frank. "ANALYSIS Wal-Mart's Media Summit: Wal-Mart Must Target More Than Press to Repair Image." *PR Weekly*. April 18, 2005. Available at www.laane.org/pressroom/stories/walmart/050418prweek.html; accessed 2/12/ 2006.

[5]The New York Times. "How Costco Became the Anti-Wal-Mart." July 17, 2005. Available at www.nytimes.com/2005/07/17/business/yourmoney/17costco.html?ei=5088&en=8b31033c5b6a6d68&ex=1279252800&adxnnl=1&partner=rssnyt&emc=rss&adxnnlx=1139774740-AB0ksa6a05pdXiZgUpbl+Q; accessed February 12, 2006.

[6]ABC News. "Costco CEO Finds Pro-Worker Means Profitability." December 2, 2005. Available at http://abcnews.go.com/2020/Business/story?id=1362779; accessed February 10, 2006.

What is a Reputation Audit?

The reputation audit is essential to "getting reputation right." The starting point in the audit process begins to lay the foundation for a final tracking and monitoring phase, which is designed to ensure that reputation *stays* on the right track.

Reputational measurement and diagnostics should be treated as an investment with an expected ROI, not an expense.

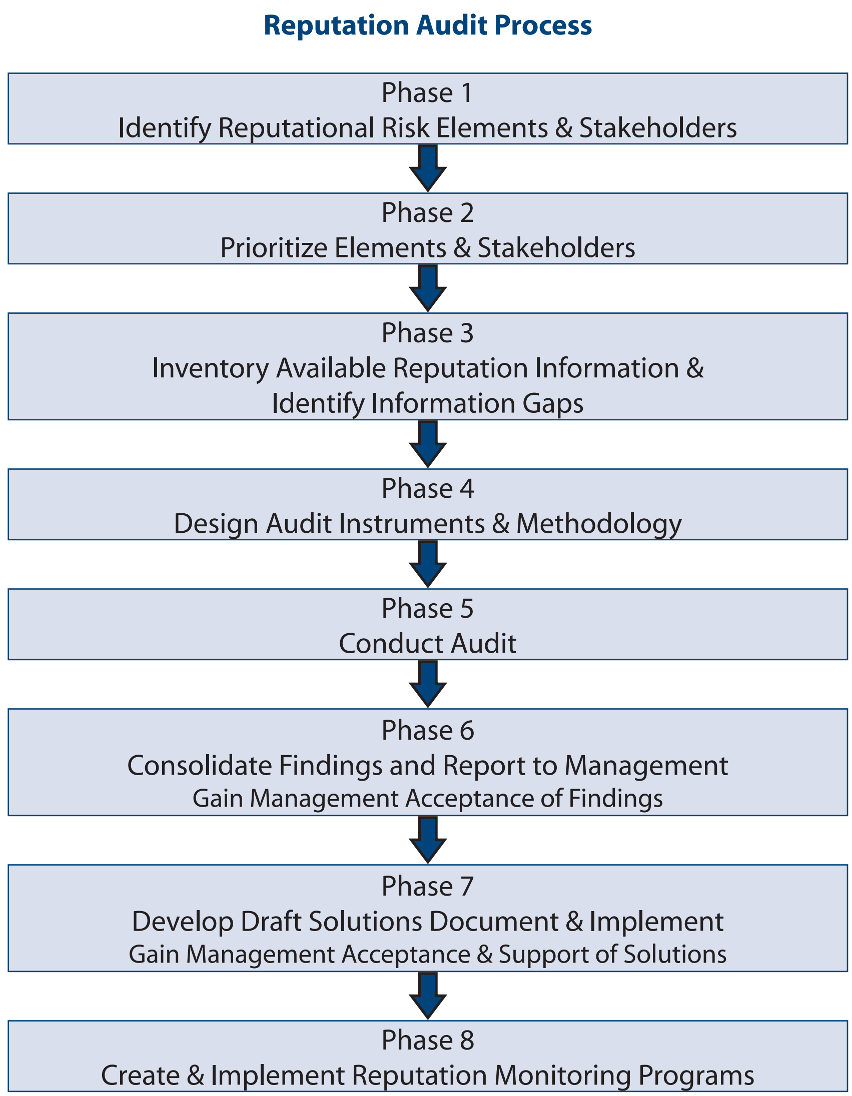
Some companies spend millions of dollars on tracking and monitoring the reputational strength of their firms among key stakeholders. Leadership in these firms subscribe to the philosophy that *reputation is simply good business.* They treat reputational measurement and diagnostics as an *investment* with an expected ROI, not as an expense. Spending millions of dollars is not necessary, but having a framework which is replicable and capable of providing mission-critical information on the most significant elements of your reputation is.

Importantly, while this paper focuses on protecting against the *downside* risk of reputation, there is as much to be said about leveraging the positive benefits of a strong reputation for business expansion, premium pricing and the ability to attract the best employees. A myriad of books and articles has already been written on this topic.

How is a Reputation Audit Started?

The Reputation Audit process consists of eight phases (see diagram) as discussed below. These phases can be integrated seamlessly into the Enterprise Risk Management Integrated Framework developed by COSO. A designated internal audit team conducts the process; the "C-suite" and Board of Directors are the recipients of the information.

Figure II: The Eight Phases of the Reputation Audit Process



What is the Reputation Audit Process?

Phase 1. Identify reputational risk elements and key stakeholders. This phase is the most important. Without the proper identification of potential reputational risks and prioritization of key stakeholder groups, the process will be flawed. Simply asking the executive management team is insufficient for identifying the potential reputational risk events. Necessary research for learning about reputational event risks falls into two categories: industry sector and company-specific. The research steps are the same for each category, as described below.

First, *media analysis* is used to identify potential reputational events in the company and in the industry. Media analysis is a highly sophisticated and effective tool for scanning issues relative to either category. It is central to the discovery of public dialog (from a variety of public media sources) that may be indicative of a reputational event risk. Furthermore, media analysis generally provides an analysis of the tone (positive or negative) surrounding the discussion of the potential reputational issue.

An emerging area within media analysis is "word-of-mouth" space — blogs, message boards, and other forms of Web-centric communication. This area poses some additional challenges in terms of identifying credible versus non-credible sources, but it cannot be ignored without consequence. Blogs, in particular, have evolved to a point where they exhibit quasi-journalistic characteristics and are becoming more mainstream, reaching an increasingly larger audience. The casual blog visitor has no vehicle to determine the accuracy or credibility of the blogs he or she reads. Whether credible or not, information contained in blogs or other electronic media can have a profound impact on reputation. 'Viral' word of mouth can be infectious and damaging. The Web must be monitored in today's environment.

Second, *group* or *individual interviews* with *front-line* employees are excellent sources of information about what is on the minds of customers. These interviews should fully probe the issues that customers raise. These issues may be product related, service related, or business-ethics related. Topics that emerge can often be surprising. Customers may often develop close relationships with front-line employees – particularly in a business-to-business setting – and as a result will often find their comfort level with candor high.

Third, *discussions* should be conducted with management and selected members of the Board of Directors, especially with outside Directors, whose independent observations are crucial for ensuring objectivity. Outside Directors bring with them the value of objectivity and the ability to look "from the outside in." This vantage point can provide a balanced assessment of potential areas of reputational risk for the firm. Strategically, we recommend the Board of Director interviews occur after the media analysis and front-line employee interviews are completed. Following this process, emerging themes can be discussed during the Board interviews and reaction to these themes obtained.

Fourth, to the extent available, existing stakeholder research should be explored — whether it be primary or secondary research. Additionally, if the company or its industry has been included in any publicly available rating systems, insights from this information should also be included.

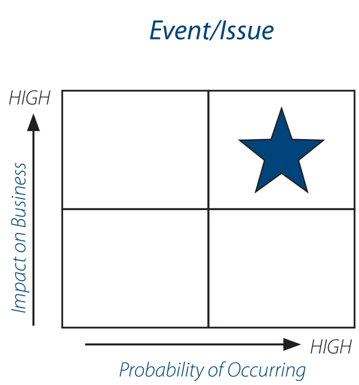
Once these initial exploratory activities are completed, the resulting information must be synthesized into a list of potential reputational events. Typically, this list ranges from 25 to 30 *reputational event risks.* While there is no standard number, the higher it is, the more important the next phase prioritization of the reputational event risks identified.

Potential reputational events should be examined at three levels: those that impact the industry, the enterprise and the business unit. The most critical reputational events to track are those having the potential to impact all three.

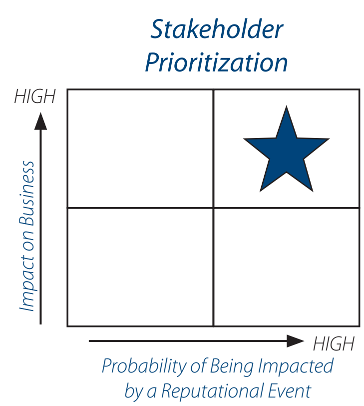
Phase 2. Prioritize reputational risk elements and stakeholders. There are two levels of prioritization: the potential impact a reputational event could have on the business and the importance of the identified stakeholder groups to the business. These are the major dimensions along which the prioritization should initially occur. Prioritization is typically accomplished using a facilitation process. However, as much of the discussion may touch on sensitive issues, it may be wise to utilize the services of a professional facilitator from outside the organization to lead the session. If an inside facilitator has any concerns about his or her standing within the organization, they may be reluctant to fully explore reputational issues - particularly those that touch on matters of ethics or treatment of the workforce. The two illustrations below demonstrate the parameters of the prioritization process. The blue stars indicate the "territory" of reputational issues that will require the greatest focus.

Potential reputational events should be examined at three levels: those that impact the industry, the enterprise, and the business unit. The most critical reputational events to track are those having the potential to impact all three.

Figure III: These grids are useful in illustrating a company's likelihood of being impacted by reputational events involving an issue or a stakeholder group. Three broad stakeholder groups are identified in this example, but more may be considered.



- Industry Level
- Enterprise Level
- Business Unit Level



- Tier 1 Customers
- Other Customers
- Vendors/Suppliers
- Others

As each enterprise is unique, different stakeholders may emerge as more or less important to an entity. For this reason, a company should conduct its own stakeholder prioritization process: there is no canned formula.

For example, leaks or spills of volatile and harmful chemicals can cause reputational damage to the chemical industry as well as to individual corporate entities operating within the industry. Consider the impact of Bhopal to fully understand this issue. Whether a chemical company has ever experienced such an event is less relevant in the minds of stakeholders than the *possibility* of the event occurring. Many organizations do have *reactive* crisis management plans in place to handle situations such as this. More importantly, however, protection against the most potentially damaging reputational events must be *proactive*, not just reactive. This includes developing inoculation messages for communications that emphasize the company's leadership actions, thus demonstrating its concern about significant reputational issues in the public eye and management's course of action to minimize the likelihood that the company will be affected by the identified reputational risk. An ounce of prevention is worth a pound of cure in many instances.

Prioritization of stakeholders is an equally important exercise, especially because an enterprise is unlikely to have sufficient resources to audit all possible groups (which is not a recommended course of action). Available resources must be focused among stakeholders having the greatest impact on a business. Typically, stakeholders of interest are Tier 1 customers — the 20 percent that account for 80 percent of a company's revenue — as well as employees, investors/investment professionals, and key vendors and suppliers. For example, the latter's decreasing willingness to do business would represent a potential interruption to a company's supply chain.

Negative word-of-mouth communication from any of these groups on a frequent basis can result in significant reputational damage. Each enterprise is unique, however, and different stakeholders may emerge as more or less important to an entity. The situation becomes even more complex when considering the role of tangential stakeholders such as regulatory authorities and NGOs (non-governmental organizations). These stakeholders wield the ability to carry enormous influence under certain circumstances. For this reason, a company should conduct its own stakeholder prioritization process: there is no canned formula.

Phases 3 and 4. Identifying existing information and designing reputation audit and related methodology. These phases involve information-gathering activities to determine whether sufficient information exists within the company for identifying reputational issues among the stakeholder groups. If not, audit instruments must be designed for collecting information.

Most large corporations typically have vehicles in place that may collect at least some of the required information. For example, brand tracking market research studies will often contain an element of perceptions concerning reputation. Media relations groups may have information on the perceptions of key journalists. Investor relations departments may have profiles of targeted analysts and their perceptions. Human resources may include reputational elements in employee surveys providing preliminary information about reputational issues on the minds of employees.

Clearly, potential sources of existing reputational information on the prioritized list of reputational risks may exist. By identifying and leveraging these sources, a company can reduce the time and resources required to complete a reputation audit.

Once the reputational events have been identified and prioritized, the reputational impact must be articulated in measurable and meaningful terms. For example, within the context of the chemical industry, a potential reputational event is the spill of a hazardous chemical during transport. Attributes that would measure this particular issue might be "Safely transports hazardous materials" or "Goes beyond required standards for the transportation of hazardous materials." The event is the spill, but reputational fortitude comes from attributes that will enable the company to *avoid* the problem in the first place. Establishing a well-recognized reputation for being in front of the issues is only possible by knowing what the reputational issues are to start with.

Testing the strength of the relationship with top customers must be one of the chief priorities of any reputational audit. A company that is perceived as being unable to keep its top customers is destined for mediocrity.

Another example demonstrates the importance of auditing a company's relationships with its key customers. The high visibility loss of a top customer might trigger other large customers to question why the defection occured. Customer loss is sometimes the result of long-term issues that fester and expand beyond the point where containment is possible. Further, customers are not always honest about the true state of relationships with their point(s) of contact within a company. Testing the strength of the relationship with top customers must be one of the chief priorities of any reputational audit. A company that is perceived as being unable to keep its top customers is destined for mediocrity. One outcome of a focus on the relationship with top customers will be an initial identification of whether the organization has a customer-centric orientation, continually seeking feedback about how to fully meet the needs of its customers.

A few tips for judging the efficacy of information collection instruments used in the conduct of the audit are presented below:

- All questions asked of the stakeholder groups must link to a specific reputational information need. Extraneous questions will result in inefficiency. Worse, they may become catalysts for getting the reputation audit off track.
- Question wording must be clear, objective, and expressed in the vernacular used by the participants. Developers of the audit instruments must take great care to ensure that question wording does not lead the respondent to a particular conclusion or response.
- Reputational attributes should reflect the organization's aspirations as expressed in corporate value statements made internally and externally.
- Where possible, a small core set of common questions should be posed across all stakeholder groups. The answers will permit direct comparisons among multiple stakeholder groups. While each stakeholder group is likely to have idiosyncratic responses, a lack of commonality will negate the possibility of comparing relative reputational strength across groups.

Guaranteeing the ability of the reputation auditors to act independently and objectively as they conduct the audit is another cornerstone of its success.

Phase 5. Ensuring success in *conducting the audit* consists of a number of elements. Asking the right questions in a well-structured, objective manner is critical. If in-house expertise does not exist, an external source should be identified and contracted for the construction of the actual audit instruments. Guaranteeing the ability of the reputation auditors to act independently and objectively as they conduct the process is another cornerstone of a successful audit. The relentless protection of confidentiality is also a must during the audit process. Interviewees must be assured that they will not experience repercussions, even if negative reputational issues relating to management are found and reported.

Information gathering may be executed as a newly initiated activity or linked to one already in place. As noted previously, focused, well-constructed questions will facilitate the gathering of information while serving to build credibility for the process with the stakeholders interviewed. Conversely, poorly designed questions can indicate insufficient thought processes, and may communicate to stakeholder groups that the audit is a meaningless exercise which is not valued by management.

As with any project management effort, a schedule of activities should be developed, agreed to by all involved parties, and checked during weekly progress review meetings. Barriers to successful completion of the audit must be identified while the audit is in process and dealt with swiftly and decisively. Management must communicate the fact that the audit is being conducted at its request and that cooperation with the process will ultimately benefit all.

Phases 6 and 7: Report to management and create draft solutions document. Information reporting consists of an executive dashboard, executive summary and comprehensive report.

An *executive dashboard* is a quick graphic depiction of the status of key reputational areas explored. Often a simple color coding scheme of green (no issues), yellow (potential caution), and red (needing immediate attention) works very well. The dashboard can be a stand-alone document or may be integrated into an existing executive information system.

An *executive summary* includes the dashboard and provides further elaboration on the rationale behind the ratings assigned to each event/issue. This document is most likely to be reviewed by the Board of Directors and management team. A length of less than ten pages is recommended.

A *comprehensive report* provides full information on the findings of the reputation audit, a comprehensive overview of the methodology used to ensure future replication; names of the reputation audit team; and, as appropriate, names of clients, vendors, and other key stakeholders participating in the audit. If names of participants are included, their permission must be obtained in advance. Confidentiality is critical in ensuring an ongoing and candid dialog with audit participants.

Reaching consensus on necessary actions is a two-phase process. First, a session to review the findings should be scheduled with the executive management team responsible for initiating the reputation audit. This session has three objectives: to review the outcomes of the reputation audit with the management team, gain acceptance of the findings, and prioritize action areas for incorporation into the solutions document.

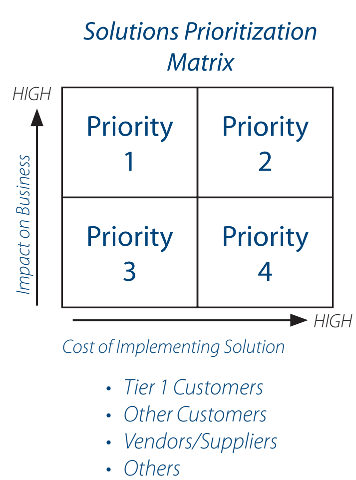
Those solutions that will have a positive impact on protecting the organization’s reputation across multiple stakeholder groups should receive higher priority for implementation.

Gaining acceptance of the findings requires a thorough review with management and a discussion on any points of disagreement. This process can be challenging but must be handled with the greatest sensitivity. It is during this phase that “buy-in” from the management team is won or lost. Any implementation schedules should take into account the likelihood for further review.

Once the management team has accepted the findings, the next priority is the development of a solutions document. This document presents recommended corrective actions to address areas of significant weakness. While the document will ultimately be jointly issued by the reputation audit team and management, the audit team prepares the initial draft. As with earlier phases, the potential solutions should be viewed through a prioritization lens. A matrix can be used to display priorities (see chart).

Decisions concerning which solutions should receive higher priority for implementation should be based on an analysis of the potential impact on the business as well as the cost of implementing the recommended solution to protect against the reputational event. Another consideration in prioritizing the solution implementation is the impact across stakeholder groups. Those solutions that will have a positive impact on protecting the organization’s reputation across multiple stakeholder groups should receive higher priority for implementation.

Figure IV: The product of Phase 7 is a prioritized list of solutions to present for management review and approval.



At the conclusion of the initial analysis, the audit team should again meet with the management team to agree upon the recommended prioritizations. The results should be included in the formal solutions document. Once this document is completed, the next phase requires convening a second session to finalize and approve it.

Phase 8. Create and implement a reputational monitoring program. Once the agreed-upon solutions have been implemented, the next step is to monitor progress on reputational initiatives. Monitoring the status of reputational events/issues for which no action is deemed necessary is also required. The environment can change quickly and issues not of concern today may well be of concern tomorrow.

The development of a monitoring program is not a trivial matter and cannot be discussed comprehensively within the context of this paper. Briefly described below are the core questions associated with developing a monitoring program:

What reputational issues need to be monitored? The issues to be monitored are those designated in the solutions document as requiring immediate action. Items deemed to have a potentially strong impact on the reputation of the firm, yet require no action, should also be monitored. Such monitoring ensures a continued strong position for that reputational element. Beyond these two "must haves," it may be desirable to develop a scheme that allows the inclusion of "emerging issues." These might be industry level issues that did not exist or were not of major consequence at the time of the initial reputation audit.

Who should be monitored? The stakeholders that should be included in the monitoring are those identified as having the highest priority in the Stakeholder Prioritization Matrix. These stakeholders are those who have the highest degree of impact on the business as well as a high degree of probability of being impacted by the reputational events identified. Other stakeholders deemed important for a myriad of additional reasons should be included in the monitoring process as budget and time allow.

How often should the monitoring occur? The frequency of monitoring will depend upon a number of factors. These include the degree of reputational risk to which the enterprise is currently exposed, the degree to which the industry is fast moving or more static, and the size of the stakeholder group from which the reputational information must be extracted. The more urgent the reputational issue, the more frequent the monitoring, perhaps as often as quarterly. The more static an industry, the less likely dramatic change will occur rapidly. In such an instance, a reputational monitoring program may be needed every 18 months or 2 years. In a rapidly changing industry prone to reputational issues, monitoring may be performed on a semiannual basis. An additional factor for consideration is the size of the universe for a particular stakeholder group. When the number of individuals in a particular stakeholder group is small, a less frequent approach to monitoring may be adequate and may avoid overburdening the stakeholder group. The burden factor must be balanced with the two previously discussed factors.

The more dynamic an industry, the more frequently the underlying framework on which the reputation audit is based should be reviewed — generally every two years at minimum.

What methodology should be used to conduct the monitoring? The methodology depends on the nature of the stakeholder group, its size, and the overall level of resources invested in the monitoring program. Large-scale reputational monitoring programs where hundreds, if not thousands, of interviews will take place are typically conducted using an online survey methodology or via a telephone interview. Employee interviews can be conducted using traditional paper-and-pencil administration, online methodology, or even an in-bound voice response approach. In-depth interviews with key customers, large-scale shareholders, suppliers, or others should be conducted by a seasoned professional, typically someone outside the organization. Comprehensive media analysis should also be considered as part of ongoing measurement.

Additional insight concerning which methodology is most appropriate for your reputational audit needs should be gained by consulting an internal or external expert in measurement.

How often should the reputational events identified in the initial reputation audit be reevaluated? The answer depends on the rapidity of shifts within the industry an organization operates in. The more dynamic an industry, the more frequently the underlying framework on which the reputation audit is based should be reviewed. Generally, monitoring should be reviewed every two years at a minimum.

Summary: Being Prepared for Risk Improves the Odds of Success

This paper explores the chief reasons for instituting corporate reputation audits, and offers a blueprint for their implementation. Key phases of measuring and prioritizing reputational risks are also considered. Ultimately, however, reputation audits are unique to each company. They must be viewed as strategic tools for harnessing and maximizing the value of an organization's reputation to ensure successful business performance in the long term.

[1]Term first used by Professor Stephen A. Greyser, Richard Chapman Professor (Marketing/Communications) Emeritus, Harvard Business School. April 2002 in conjunction with consultation given to Rating Research LLC. Reputational distress is defined as a state of existence where a company is struggling to correct significant reputational deficiencies. The deficiencies may be the result of a number of issues (financial, regulatory, public relations debacles, etc.) and are the consequence of flawed business behavior, endemic failures in operational execution and/or poor judgment on the part of senior management or other key managers within the firm. A company in this state has broken basic elements of the public trust, undermining the integrity of the company. However, the company is not yet devoid of the opportunity to achieve reputational rehabilitation. The reputational future of a company in this category is squarely in the hands of its senior management. If the corporate behaviors of a company in this category remain uncorrected, the future financial and/or reputational value of the company is low, and both the company's name and the company itself are unlikely to survive in their current state. A company experiencing severe reputational distress is in serious jeopardy of financial failure or liquidation as confidence in the company among significant stakeholders and/or vendors wanes.

[2/3]*Enterprise Risk Management — Integrated Framework. Executive Summary Framework.* Committee of Sponsoring Organizations of the Treadway Commission. 2004. Available at www.coso.org/Publications/ERM/COSO_ERM_ExecutiveSummary.pdf; accessed February 12, 2006.
COSO is a voluntary private sector organization dedicated to improving the quality of financial reporting through business ethics, effective internal controls, and corporate governance. COSO was originally formed in 1985 to sponsor the National Commission on Fraudulent Financial Reporting, an independent private sector initiative which studied the causal factors that can lead to fraudulent financial reporting and developed recommendations for public companies and their independent auditors, for the U.S. Securities and Exchange Commission (SEC) and other regulators, and for educational institutions. The National Commission was jointly sponsored by five major professional associations: the American Accounting Association, the American Institute of Certified Public Accountants, Financial Executives International, the Institute of Internal Auditors, and the National Association of Accountants (now the Institute of Management Accountants). The commission was wholly independent of each of the sponsoring organizations and contained representatives from industry, public accounting, investment firms, and the New York Stock Exchange. Chairman was James C. Treadway, Jr., Executive Vice President and General Counsel, Paine Webber Incorporated and a former SEC Commissioner; hence, the popular name, Treadway Commission.

[4]Professor Stephen A. Greyser, Richard P. Chapman Professor of Business Administration (Marketing/Communications), Emeritus, Harvard Business School.

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